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# The Process and Logic of China's Socialist Market Economy from Mechanism to System

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## ABSTRACT

Since the founding of the People's Republic of China, state leaders including Mao Zedong, Zhou Enlai, Deng Xiaoping and Xi Jinping have all made important statements on the fundamental economic system of socialism. Reviewing and analyzing the history of the formulations in important Chinese documents on the fundamental economic system, this paper highlights China's exploration of theoretical innovation as promoted by innovation in practice. The paper contends that in dealing with the relationships between planning and market and between government and market, and while defending the fundamental role played by the market in resource allocation, we should consistently stress the superiority of socialism and point to the active roles of the party and government, while emphasizing the attribute of "socialist." In discussing how to combine the socialist economic system with the market economy, the paper stresses the superiority of socialism as a fundamental system, and contends that public ownership must be retained as the mainstay of the economy, so that the general character of the market economy can be transformed and endowed with a socialist character. The paper also discusses how the market economy should be combined with the fundamental economic system of socialism from the perspective of political economy.

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The "Decision of the Central Committee of the Communist Party of China on Some Major Issues of How to Uphold and Improve the System of Socialism with Chinese Characteristics and to Advance the Modernization of China's System and Capacity for Governance," adopted at the fourth plenary session of the 19th National Congress of the Communist Party of China (CPC), provided a new summary of the features of the fundamental economic system of socialism with Chinese characteristics. According to this Decision, public ownership should play the dominant role in the economy, while diverse forms of ownership should develop together. In the field of distribution, distribution according to work should act as the mainstay, with other forms of distribution existing alongside it. The socialist market economy and other elements of the fundamental economic system of socialism, the document explains, not only embody the superiority of the socialist system, but also accord with the level of development of the productive forces at the primary stage of China's socialism, and together, represent a great creation

of the party and the people.<sup>1</sup> This “great creation” of the fundamental economic system of socialism with Chinese characteristics is based principally on two aspects. On the one hand, it accords with the level of development of the productive forces at the primary stage of China’s socialism in terms of economic relations, providing a concentrated reflection of the historical and social character of the fundamental economic system of socialism with Chinese characteristics. On the other hand, it “embodies the superiority of the socialist system” in terms of system characteristics, which are an organic component of the system of socialism with Chinese characteristics. Grasping the changes in the historical features of the primary stage of socialism makes it possible to recognize and understand the characteristics of the fundamental economic system of socialism at this stage, and to arrive at a correct scientific judgement of the fundamental economic relations, basic systemic features, and overall significance of contemporary socialism in China.

This new summary of China’s fundamental economic system provides a succinct account of the country’s economic construction and innovation in the practice of reform over the period of more than 70 years since the founding of the new China, and especially during more than four decades of reform and opening-up. It also encompasses the fruits of theoretical innovations in the field of Marxist political economy. In particular, the summary’s explanation that the socialist market economy represents the fundamental economic system of socialism highlights the point that adherence to the reforming thrust of the socialist market economy is an important principle of the political economy of socialism with Chinese characteristics, whose key theoretical theme is the developing and improving of the socialist market economy system.

Innovation in practice is the precursor of theoretical innovation, and theoretical innovation represents a sublimation of innovation in practice. The combination of practice and theory in the “historical review” of the evolution of the socialist market economy from mechanism to system during the 70 years since the founding of the new China, and especially during the 40 years since reform and opening-up, helps us to clearly understand “the historically determining forms in which the laws of political economy [socialist political economy] were first stated and further developed” (Marx [1861–1863] 2010, 241). Further, this combination of practice and theory allows us to broaden our understanding of the fundamental economic system of socialism, and to promote further development of the political economy of socialism with Chinese characteristics.

## **1. Rediscovering the Role of the Law of Value, Probing the Adjustment of Economic Mechanisms, and Exploring the Relationship between Market Mechanisms, Market Adjustment, Plan Mechanisms, and Plan Regulation**

Confronted with a backward and extremely weak national economic base, the new China after its founding chose a highly-centralized economic system for carrying out the first steps in its transition to socialism. The strategy involved concentrating the country’s limited human, material and financial resources, carrying through key infrastructure projects, and promoting the construction of the national economic system. As the process of accelerated socialist economic construction went ahead, the drawbacks of the highly-centralized economic system gradually emerged. In April 1956, Mao Zedong in his work “On the Ten Major Relationships” made the specific point that a holistic

approach was needed for tackling and solving the various contradictions and problems that were apparent in the construction of socialism at that time (Mao [1956] 1999, 23–49). Mao Zedong noted that the principle of “overall planning and all-round consideration, so that everyone is provided for . . . has been our consistent policy. It was our policy in the Yanan days. . . . What kind of policy is this? It is one of mobilizing all positive forces to build socialism. It is a strategic policy” (see Party Literature Research Office of the CPC Central Committee 2013, 69).

Following the principle of “overall planning and all-round consideration,” the 8th National Congress of the CPC explored the question of reforming the economic system from various angles, and Zhou Enlai observed in the “Report on Recommendations for the Second Five-Year Plan for the Development of the National Economy” that

. . . thanks to the success of the socialist transformation, the socialist economy has come to occupy an absolutely dominant position in our country. This makes it possible for us to better utilize the law of value on an appropriate scale so as to affect the production of those industrial and agricultural products with a low output value and a great variety that do not necessarily require unified purchase and sale by the state. In this way, we can meet the diverse living need of the people. (Zhou 1956, 173)

Here, the words “better utilize the law of value” amount to a recognition of the role of the market, of the market mechanism and of market adjustment. Zhou Enlai also advanced his concept of a reform process in which “under the leadership of the unified state market, the organization in a planned manner of a free market portion” would “act as a beneficial complement to the unified state market” (Zhou 1956, 173). Also at the 8th National Congress of the CPC, Chen Yun proposed his idea of “three main bodies and three complementary parts.” In this scheme, “state operation and collective operation” would act as the main bodies of industry and commerce, with individual operation as “the complement of state operation and collective operation.” Planned production would account for the bulk of industrial and agricultural output, and would be complemented by free production according to market demand and within the permitted scope of the national plan. In the unified socialist market, Chen Yun indicated, the national market would represent the main body, while the free market would be “the complement to the national market under the leadership of the national market” (Chen [1956] 1994, 245). Since then there have been recurrent debates, which have never really ceased, concerning the theory and practice of reforming highly-centralized economic systems. The overall concept of economic system reform, however, has principally been confined to the question of how to allocate power between the central and local governments; the fundamental problem of excessive control by the government and a relatively weak role for the market has not been addressed, and no breakthrough has occurred for economic system reform in the area of the relationship between planning and market.

In the new era of reform and opening-up, the third plenary session of the 11th CPC Central Committee that convened in December 1978 made an in-depth analysis of the “serious drawbacks” inherent in the highly-centralized planned economic system, and put forward a series of reform measures aimed at ending the excessive centralization of power within the economy. These measures included the proposal that while clear leadership should continue to be exercised, extensive powers should be delegated to lower levels, giving the local governments and industrial and agricultural enterprises more

powers of operation and management under the guidance of the unified national plan. Meanwhile, it was emphasized that economic laws should be followed steadfastly. The basic idea put forward in the session was that “the role of the law of value should be taken seriously” (Party Literature Research Office of the CPC Central Committee 2008, 16). The law of value is the basic law of the commodity economy, with the price mechanism, the supply and demand mechanism, and the competition mechanism together making up the functioning process. Taking the role of the law of value seriously includes intrinsically paying attention to the roles of the market mechanism and of market adjustment.

In March 1979, not long after the third plenary session of the 11th CPC Central Committee, Chen Yun argued while outlining the issue of planning and market:

There must be two parts to the economy throughout the whole socialist period: (1) the part of the planned economy (the part employing plans and carried on proportionally); (2) the part using market adjustment (i.e. the part without plans in which production occurs in line with the changes in market supply and demand, in other words, the part that employs spontaneous adjustment). The first part is basic and principal, while the second part is subordinate and secondary, but necessary. (Party Literature Research Office of the CPC Central Committee 2008, 25–26)

Addressing the practical situation with reform of the economic system at that time, Chen Yun maintained that

... in the future economic adjustment and reform of the system, adjusting the ratio of the two economies, planning and market, will actually figure heavily. It is not necessarily the case that the more the element of the planned economy increases, the more the absolute volume of the market economy will dwindle, since it is possible that both parts will increase correspondingly. (Party Literature Research Office of the CPC Central Committee 2008, 27)

Deng Xiaoping not only agreed with these views of Chen Yun, but proceeding from the relations between planning and market to the vision of the market economy and planned economy, argued that “it is definitely incorrect to say that the market economy exists only in capitalist society, that there is only the capitalist market economy.” Deng emphasized that “we have the planned economy as the mainstay, and combine it with the market economy” (Deng 1994, 236).

In June 1979 the Second Session of the Fifth National People’s Congress proposed that through economic reform, we should step by step establish a system that combined planned regulation with market adjustment, taking planned regulation as the mainstay while also recognizing that the role of market adjustment should be assigned full importance. In June 1981 the “Resolution on Certain Questions of the History of Our Party since the Founding of the People’s Republic of China,” adopted by the Sixth Session of the Eleventh National People’s Congress confirmed this reform orientation. The session proposed that it was “necessary to have a planned economy and at the same time to give play to the supplementary, regulatory role of the market on the basis of public ownership,” while emphasizing the need to “strive to promote commodity production and exchange on a socialist basis” (Party Literature Research Office of the CPC Central Committee 2008, 213). The resolution observed that there was “no rigid pattern for the development of the socialist relations of production,” going on to assert: “At every stage our task is to create those specific forms of the relations of production that correspond to the

needs of the growing productive forces and that facilitate their continued advance” (Party Literature Research Office of the CPC Central Committee 2008, 213). This valuable concept highlights the fact that the selection of concrete economic forms is directly related to the innovation occurring at different stages, while the innovation at different stages is always related to the requirements of developing the productive forces and to changes in the continuously advancing relations of production. On this basis, the Fourth Session of the Fifth National People’s Congress in November 1981 proposed that “the basic direction of our reform of the country’s economic system should be that of enabling market adjustment to play an ancillary role under the premise of adhering to the socialist planned economy,” while also noting that “the state should give sufficient consideration to and utilize the law of value when making plans” (Party Literature Research Office of the CPC Central Committee 2011a, 334).

In September 1982 the 12th National Congress of the CPC summarized the achievements of the economic reform, describing the basic structure of the economic system as “taking the planned economy as the mainstay and market adjustment as the complement,” and proposed that a fundamental task for the reform was to “correctly implement the principle of taking the planned economy as the mainstay and market adjustment as the complement” (Party Literature Research Office of the CPC Central Committee 2008, 272). The advancing of such a fundamental change to the structure, and its implementation in practice, undoubtedly dealt a big shock to the original pattern of resource allocation through highly-centralized planning, and was to play an important role in promoting China’s economic system reform.

## **2. Taking the Relationship between Planning and Market as the Core; Making a Breakthrough in Reform of the Economic System; Exploring the Relations between the Planned Economy, Commodity Economy, and Market Economy; Determining the Logical Process Involved in “Orientation” of the System**

In October 1984, the “Decision on Reform of the Economic System” adopted by the third plenary session of the 12th CPC Central Committee provided an important sign of the process of economic reform under way in the new era. The Decision stated explicitly that in the reform of the economic system, the first task should be “breaking through the traditional concept of counterposing the planned economy to the commodity economy.” The socialist planned economy should “consciously rely on and utilize the law of value,” and should be “a planned commodity economy based on public ownership.” Full development of the commodity economy should be “an unavoidable phase in the economic development of the society and a prerequisite for realizing the economic modernization of China” (Party Literature Research Office of the CPC Central Committee 2008, 350). The Decision broke through the constraints of ideas that regard the socialist economy as purely planned, created a new concept of economic reform as an overall reform of the economic mechanism and system, and represented a crucial step in the process of socialist market economy reform. The rapid advance of China’s economic reform and the accelerated economic development that followed were closely related to this important breakthrough in the selection of a target mode for the economic system.

In light of the new practice being applied to developing the reform of China's economic system, the 13th National Congress of the CPC in October 1987 put forward the concept of establishing "a system featuring the intrinsic integration of planning and market," holding that the development of a socialist commodity economy could not do without the growth and improvement of the market, and that utilizing market adjustment should not be identified with implementing capitalism. The Congress explicitly proposed establishing a pattern of operations for the economic system that featured "the state regulating the market, and the market guiding the enterprise" (Party Literature Research Office of the CPC Central Committee 2008, 471). The corresponding pattern of reform has greatly broadened the theoretical horizon of socialist political economy in China, and has triggered extensive in-depth discussion. Compared with the pattern of "taking the planned economy as the mainstay and market adjustment as the complement," the pattern of "the state regulating the market, and the market guiding the enterprise" highlights planned regulation and market adjustment as an organic unity which, in terms of the scope of regulation, means planned regulation at the macro level and market adjustment at the micro level. Conceptually, however, the wording "the state regulating the market, and the market guiding the enterprise" has not completely shaken off the constraints of the notion that the planned economy is related to socialism and the market economy to capitalism. Nor has this wording provided a further illustration to fit the reality of the economic and social development concerning the question of the market operating as a fundamental means for resource allocation; in the selection of a reform pattern that it implies, the wording is still confined within the framework of the relationship between the mechanisms of planning and market, and has not risen to the level of expressing the holistic relationship that characterizes the economic system.

Innovation in practice promoted innovation in theory, while innovation in theory also promoted innovation in practice. In the spring of 1991, Deng Xiaoping stated in a speech delivered in Shanghai during an inspection tour: "Don't think that every planned economy is socialist and every market economy is capitalist. That's not the way things are. In fact, planning and market regulation are both means of controlling economic activity, and the market can also serve socialism" (Deng 1993, 367). In a talk delivered in the spring of 1992 during his southern tour, Deng again stressed: "A planned economy is not equivalent to socialism, because there is planning under capitalism too; a market economy is not capitalism, because there are markets under socialism too. Planning and market forces are both means of controlling economic activity" (Deng 1993, 373). These concise and comprehensive explanations provided by Deng distinguish fundamentally between understanding the market economy in terms of mechanism and in terms of system, something that undoubtedly represents an important theoretical innovation in socialist political economy.

Marx in his writings on the history of political economy once stated that formation of the economic category mostly involved a process "in which the forms were laboriously extracted from the substance and fixed, with great effort, as the proper object of analysis" (Marx [1857-1858] 2010b, 228). The theoretical innovation made by Deng Xiaoping in his exploration of the relations between the planned and market economy dispelled the idea that the market economy was reliant on capitalist private ownership, enabling the market economy to be divorced from the description of the basic economic system of capitalism and allowing it to form a general "abstract moment" of description in



terms of its mechanism. As Deng repeatedly emphasized, “The proportion of planning to market forces is not the essential difference between socialism and capitalism” (Deng 1993, 373). On the other hand, only when the market economy that Deng proposed as a general “abstract moment” is combined with a particular basic socio-economic system can it be sufficient and real. Marx pointed out that

there are determinations which are common to all stages of production and are fixed by reasoning as general; the so-called *general conditions* of all production, however, are nothing but these abstract moments, which do not define any of the actual historical stages of production. (Marx [1857-1858] 2010a, 26; italics in the original)

Deng Xiaoping’s theoretical innovation separated the market economy from the basic economic system of capitalism, thus forming the general category of market economy, and emphasized that the market economy system would necessarily combine with particular basic economic systems. In this way the new concept of the “socialist market economy system,” combined with the fundamental socialist economic system, was put forward.

The socialist market economy system is a continuation of the previous planned economy system, while the planned economy has always been the defining property of the fundamental socialist economic system. In the terms of comparisons between economic systems, the socialist market economy system should be contrasted with the capitalist market economy, while the capitalist market economy has always been regarded as the defining property of capitalist private ownership. It is thus clear that the defining property of the fundamental socialist economic system is inherent in the socialist market economy system. In the early stage of formation of the socialist market economy system, however, the compatibility of the socialist market economy system with the fundamental socialist economic system is a theoretical question that needs to be explored in practice and verified by practice. That is to say, the defining property of the socialist market economy has yet to be made clear in practice and in theory.

If the socialist market economy system is to be shown to possess the defining property of the fundamental socialist economic system, establishing the compatibility, in theory and practice, of the socialist market economy system with the fundamental socialist economic system is a necessary process. In setting the target mode for the socialist market economy system reform, the 14th National Congress of the CPC in October 1992 stated:

In the 1990s, we should establish the new economic system on a preliminary basis, and achieve the goal of second-stage development, which is the achievement of a moderate level of prosperity. After two more decades of hard work, when we celebrate the 100th anniversary of the founding of the CPC, we will have a complete set of the institutions of a more mature and established system in various aspects. (Party Literature Research Office of the CPC Central Committee 2008, 676)

The orientation of “establishing” the system and verifying its “establishment” requires continuous practice and persistent investigation in the area of economic system reform, as well as the improvement and development of the socialist market economy system. Further, it requires that the socialist market economy system constantly infuse and generate the defining property of the fundamental economic system throughout the “whole” of socialist economic relations.



In November 1993, the “Decision on Some Major Issues concerning the Establishing of a Socialist Market Economy System,” adopted by the third plenary session of the 14th CPC Central Committee, put forward the basic framework of the socialist market economy system. This Decision proposed a series of innovative ideas for establishing a modern enterprise system, for fostering a modern market system, for transforming government functions, and for improving the macroeconomic regulation system, as well as ideas for establishing a social security system. Further, it provided preliminary answers to questions concerning the type of socialist market economy that needed to be constructed, and how it should be built. In March 2013, at the third plenary session of the 18th CPC Central Committee, Xi Jinping looked back over the reforms during this period and remarked:

During the more than 20 years since the 14th National Congress of the CPC, we have been seeking a scientific orientation toward relations between the government and the market based on the development of practice and the deepening of understanding. The 15th National Congress proposed to “have the market play a fundamental role in resource allocation under the macro-control of the state,” the 16th National Congress proposed to “make the market play the fundamental role in the allocation of resources to a greater extent,” the 17th National Congress proposed to “make the market better perform the fundamental role in resource allocation at the institutional level,” and the 18th National Congress proposed to “make the market play the fundamental role in resource allocation to a greater extent and with a broader scope.” It can be seen that our understanding of the relations between government and market is also deepening. (Party Literature Research Office of the CPC Central Committee 2014, 498–499)

This statement by Xi Jinping put forward three features of the reform of the socialist market economy system in the period between the 14th and 18th National Congresses of the CPC. First, the reform of the socialist market economy system in this period changed the core problem that existed before the 14th National Congress, that of the relations between planning and market, to that of the relations between government and market. Second, during this period the 17th National Congress of the CPC in particular began exploring the question of deepening the reform of the socialist market economy system “at the institutional level.” Third, this process was said by Xi Jinping to have been “seeking a new scientific orientation based on the development of practice and the deepening of understanding.” Xi Jinping thus drew the conclusion that “further orienting the relations between government and market in the area of theory will play a very important role in comprehensively deepening the reform” (see Party Literature Research Office of the CPC Central Committee 2014, 499).

### **3. Taking the Relations between Government and Market as the Core Issue, Focusing on Promoting Innovation in the Structures and Institutions of Governance, Strengthening the Defining Property of the Socialist Market Economy System Based on the “Totality” of Socialist Economic Relations, and Forming the Logical Process Featuring the “Establishment” of the System**

After the 18th National Congress of the CPC, Xi Jinping identified “adhering to the objective of socialist market economy reform” as an “important principle” of the political economy of socialism with Chinese characteristics. He put forward multifaceted

explanations for the character of the relations between the fundamental socialist economic system and the market economy system, using “dialectics and the doctrine that everything has two aspects,” demonstrating the defining property of the socialist market economy system, and enriching the significance of the socialist market economy as the underlying theoretical essence of the political economy of socialism with Chinese characteristics.

That the socialist market economy system is a defining property of the fundamental socialist economic system is not determined by the general character of the economic system, but by the particular nature of the fundamental economic system with which the socialist market economy system is “combined,” and by the nature of the totality of socialist economic relations. Marx once pointed out:

In every form of society there is a particular [branch of] production which determines the position and importance of all the others, and the relations obtaining in this branch accordingly determine those in all other branches. It is the general light tingeing all other colours and modifying them in their specific quality; it is a special ether determining the specific gravity of everything found in it. (Marx [1857-1858] 2010a, 43)

In the “totality” of capitalist economic relations, capital as the core category of capitalist private ownership of the means of production is the “general light” and “special ether” within the “totality,” that is, the “economic power” dominating everything in capitalist society. In the “totality” of socialist economic relations, public ownership of the means of production holds the dominant position within the socialist structure of ownership. It is “the general light” and “special ether” within the “totality”; it is the economic power that dominates everything in socialist society, and it provides the basis and condition for the socialist market economy system to integrate into and act as the defining force within the fundamental socialist economic system.

The socialist market economy represents the unity of the economic system in general and of the economic system in particular. Since the 18th National Congress of the CPC, the practice of comprehensively deepening the reform of the economic system has enabled the socialist market economy system to be more compatible with the fundamental socialist economic system, and the defining property of the socialist fundamental economic system is also combined and integrated in a more practical way with the socialist market economy, growing into a property of the market economy. The underlying logic of this theory finds an implicit reflection in Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era. That is to say, Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era provides the theoretical guidance for arriving at the conclusion that the socialist market economy system represents a constituent part of the fundamental socialist economic system.

In its discussion on the defining property of the socialist market economy system, Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era advanced three important views.

First, Xi Jinping proposed that

what our country is implementing is the socialist market economy system, and we should continue to take advantage of the superiority of the socialist system and have the party and government play an active role in our country. The market should play the decisive

role in allocating resources, but not the entire role. (Party Literature Research Office of the CPC Central Committee 2014, 500)

The development of China's socialist market economy system is carried out within the framework of the socialist system, is effectively regulated and influenced by the superiority of the socialist system, and at the same time demonstrates the superiority of the socialist system.

Maintaining the party's leadership in economic work and adhering to people-centered development represents a concentrated reflection of the superiority and substantive characteristics of the socialist system. Maintaining the party's leadership in economic work signifies a fundamental adherence to the centralized and unified leadership of the party in this area, and guarantees that our country's economy will develop along the correct lines, which is the essential task of the political economy of socialism with Chinese characteristics. The fundamental stance of the political economy of socialism with Chinese characteristics may be summed up as adhering to people-centered development. Guided by the fundamental positions of Marxism, expounded in statements such as "The proletarian movement is the . . . movement of the immense majority, in the interest of the immense majority" (Marx and Engels [1848] 2010, 495) and by the prediction that in the society of the future "production will be calculated to provide wealth for all" (Marx [1857-1858] 2010b, 94), Xi Jinping further developed his concept of "adhering to people-centered development, and making the improvement of people's welfare, the promotion of the all-round development of human beings and the achieving of steady progress toward common prosperity the starting point and objective of economic development" (see Party Literature Research Office of the CPC Central Committee 2018, 4). This is the basic stance that must be steadfastly adhered to when projecting all economic work, formulating all economic policies and promoting economic operations overall. It also represents the most important defining property of the socialist market economy, and is a fundamental condition for integrating the socialist market economy and imbuing it with the attributes of the fundamental socialist economic system.

Second, Xi Jinping proposed that

. . . implementing the fundamental economic system under which public ownership is the mainstay and diverse forms of ownership develop together is a fundamental policy embraced by the CPC. It is an important constituent part of the system of socialism with Chinese characteristics, and is also a necessary requirement for improving the fundamental socialist economic system. (Party Literature Research Office of the CPC Central Committee 2018, 245)

Developing and improving the socialist market economy system is a necessary requirement for upholding the fundamental socialist economic system, and also represents the form in which the fundamental socialist economic system is realized in respect of the economic system.

It is in the process of combining with the fundamental socialist economic system that the socialist market economy manifests the defining property of this system. We develop the market economy under the leadership of the CPC and on the major premise of implementing the socialist system, and under no circumstances can we forget the descriptor "socialist." Xi Jinping has stressed:

... the reason we call it the socialist market economy is that we should uphold the superiority of our system and deliberately avoid the drawbacks of the capitalist market economy. We should adhere to dialectics and to the doctrine that everything has two aspects, while continuing to devote time and energy to combining the fundamental socialist system with the market economy. (Party Literature Research Office of the CPC Central Committee 2018, 6)

Here, we should uphold “dialectics and the doctrine that everything has two aspects,” and make good use of both the “invisible hand” and the “visible hand.” The roles of the government and market are complementary and not antithetical, and it is not a question of simply deciding the ratio of the roles played by the market and the government. On the contrary, we should ensure that the advantages of the two supplement one another; we should seek to realize the organic combination of the two, and have them function in a coordinated manner. Upholding the socialist market economy system requires giving full play to the strong points of the market, and to the superiority of the socialist system as well. This is the key to the success of the socialist economy with Chinese characteristics, and is the foundation of the defining property of the socialist market economy system.

Third, Xi Jinping observed that “the fundamental economic system under which public ownership is the mainstay and diverse forms of ownership develop together is an important pillar for the socialist system with Chinese characteristics, and also the foundation of the socialist market economy system” (see Party Literature Research Office of the CPC Central Committee 2014, 514–515). The fundamental economic system with public ownership as the mainstay is like the “general light” and “special ether” of socialist economic relations; it changes the general character of the market economy system, lays the foundation for the socialist market economy system and endows the socialist market economy with its new defining property.

In combining the socialist economic system with the market economy system, we should take advantage both of the strong points of the market economy and of the superiority of the socialist fundamental system. The “invisible hand” should play the decisive role in allocating resources, and the “visible hand” of government should perform its roles in better fashion. To solve this core problem of market and government, we should deepen the reform of the socialist market economy system; take as the “foundation” the fundamental economic system under which public ownership is the mainstay and diverse forms of ownership develop together; and as the process of combining and integrating with the fundamental economic system goes ahead, steadily remove the obstacles to the mechanism and system of economic development and strengthen the modernization of state governance and governance capability.

Looking back at the forty-year history of the reform of China’s economic system, the evolution from the economic mechanism to the “orientation” of the economic system and then to its “establishment” marks the basic course of the reform of the socialist market economy and of the process through which it possessed the defining property of the economic system. The important views advanced by Xi Jinping on these three aspects provide a theoretical summary of the practice of economic system reform, are an example of the creative use of the overall methodology of Marxist political economy, and also provide us with a theoretical basis for understanding and grasping the socialist market economy system as the essence of the fundamental socialist economic system.

#### 4. The Process and Logic of the Defining Property of the Socialist Market Economy from Mechanism to System, and the Significance for the Development of the Political Economy of Socialism with Chinese Characteristics

The process and logic of the reform of the socialist economic system from mechanism to system demonstrate that the reform of the socialist market economy system is an innovation by all of China's ethnic groups, led by the CPC, in the practice of reform and opening-up and socialist modernization. The process through which the resulting core question of the relations between planning and market is expanded into that of the relations between government and market, as well as the process of evolution from economic mechanism to the "orientation" of the economic system and then to the "establishment" of the economic system, provides a representation of the logic of the gradual exploration and forging ahead of the economic system reform of socialism with Chinese characteristics.

The fundamental socialist economic system has the key feature of integrity. The fourth plenary session of the 19th CPC Central Committee, in explaining the notable advantages of various aspects of China's state system and national governance system, listed "adhering to public ownership as the mainstay and diverse forms of ownership developing together; distribution according to work as the mainstay and multiple forms of distribution existing alongside it; combining the socialist system and market economy organically; and continuously emancipating and developing the prominent advantage of the social productive forces" (*People's Daily* 2019). This "prominent advantage" of the fundamental socialist economic system manifests itself essentially as an advantage in terms of the structure of ownership and in the area of the distribution system; on this basis, it constitutes the prominent advantage of the socialist market economy system in the operational processes of the economy. The various elements of "prominent advantage" fully reflect the nature of socialism in emancipating and developing the productive forces.

In November 2015, in his preliminary summary of "systematized economic theory" with Chinese characteristics (see Party Literature Research Office of the CPC Central Committee 2018, 7), Xi Jinping expounded on the question of the fundamental socialist economic system with Chinese characteristics as a whole. In his explanations, he first put forward the fundamental economic theory of adhering to public ownership as the mainstay, and of diverse forms of ownership developing together at the primary stage of socialism. "The fundamental economic system of our country," he stated, "is the important pillar represented by the socialist system with Chinese characteristics, which is the foundation of the socialist market economy system as well." The dominant position of public ownership as the fundamental economic system, he said, could not be shaken; nor could the leading role of the state-owned economy, "which is the institutional guarantee ensuring that people of all ethnic groups can share the fruits of development, and also an important guarantee for consolidating the ruling status of the CPC and upholding our country's socialist system" (see Party Literature Research Office of the CPC Central Committee 2018, 5). As the process of establishing and developing the fundamental economic system at the primary stage of socialism has gone ahead since the reform and opening-up, it has been emphasized that public ownership is the mainstay, that diverse forms of ownership need to develop together, that the public and non-public

sectors of the economy are both important constituents of the socialist market economy, and that both are important foundations of China's economic and social development. The recognition that "we should unwaveringly consolidate and develop the public sector of the economy, unwaveringly encourage, support and guide the development of the non-public sector of the economy, and promote various forms of ownership to complement each other, support each other and achieve common development"<sup>2</sup> has become the crucial defining property of the socialist market economy system.

Second, Xi Jinping called for adhering to and improving the theory of the fundamental socialist distribution system. The theory of distribution according to work as the mainstay, with multiple forms of distribution existing alongside it, is one of the major theories reflecting the substantive characteristics of the fundamental socialist economic system with Chinese characteristics that has arisen in the new era. The institutional arrangement of distribution according to work as the mainstay and multiple forms of distribution existing alongside it should "be conducive in all its aspects to arousing enthusiasm and to realizing the organic unity of efficiency and equity" (Party Literature Research Office of the CPC Central Committee 2018, 5). It should result in development bringing more benefits to all the people, in a more equitable fashion, and should lead our society to advance steadily toward common prosperity. In implementing this distribution system, Xi Jinping emphasized,

... we should attach great importance to it, work hard to promote the synchronizing of economic growth with increases in people's incomes, and synchronize increases in the remuneration of labor with increases in labor productivity. We should continuously improve the system and mechanism and also improve concrete policies; we should adjust the pattern of distribution of national income, continuously increase the incomes of urban and rural residents, and reduce the income gap. (Party Literature Research Office of the CPC Central Committee 2018, 5)

The nature of this distribution system is deeply embodied in the functioning of the socialist market system, and endows the socialist market economy system with its defining property.

Third, it is in its "combination" with the socialist ownership and distribution system that the socialist market economy system is integrated with and determines the features and requirements of the fundamental socialist economic system. Determining the nature of the socialist market economy, as well as of the fundamental system, represents a major innovation made by the CPC in the theory and practice of scientific socialism, and is the most remarkable theoretical innovation in the political economy of socialism with Chinese characteristics. This is where the basis of the socialist market economy system as a key theoretical postulate of the political economy of socialism with Chinese characteristics is to be found.

The 14th National Congress of the CPC established the objective reform pattern of the socialist market economy system, and the system's basic framework was elaborated by the third plenary session of the 14th CPC Central Committee. Since then developing and improving the socialist market economy system, in line with the direction of socialist market economy reform, has become the most important theoretical and practical task of economic system reform, and the theoretical essence of the political economy of socialism with Chinese characteristics.



In 1998 Jiang Zemin, taking as his basis the early practice of the reform of the socialist market economy system, marked the 20th anniversary of reform and opening-up by noting that the establishment of the socialist market economy system in China was “a distinctly important achievement of reform, obtained after summarizing the experience and lessons of socialist construction at home and abroad since the third plenary session of the 11th CPC Central Committee and after rigorous investigation.” It was, he affirmed, “a new innovative development by our party in the Marxist theory of the socialist economy” (see Party Literature Research Office of the CPC Central Committee 2011b, 605). In 2008, on the occasion of the 30th anniversary of reform and opening-up, Hu Jintao responded to the new process of reform of the socialist market economy system by stating:

We should consistently adhere to the direction of reform of the socialist market economy, continue to improve the socialist market economy system, steadily strengthen and improve the macro control system, and continue to provide a strong impetus for the rapid and sound development of the economy and society. (Party Literature Research Office of the CPC Central Committee 2009, 801)

In this way, reform and development of the socialist market economy system as the theoretical basis for the political economy of socialism with Chinese characteristics can be ensured.

After the 18th National Congress of the CPC, Xi Jinping specified adherence to the line of socialist market economy reform as a “significant principle” of the political economy of socialism with Chinese characteristics. He provided detailed explanations of various aspects of the relations between the socialist economic system and the market economy system and of relations between the market and government from the angle of “dialectics and the doctrine that everything has two aspects,” thus enhancing the significance of the theoretical implications of the political economy of socialism with Chinese characteristics. After the 19th National Congress of the CPC, Xi Jinping combined the novel features of reform and opening-up in the new era, putting forward the view that the market economy system should be “combined” with the fundamental socialist economic system. This became the most innovative theoretical position of the political economy of socialism with Chinese characteristics, while the question of how to “combine” the market economy system with the fundamental socialist economy system has figured as the most controversial theoretical issue of the political economy of socialism with Chinese characteristics.

At the conference celebrating the 40th anniversary of reform and opening-up, Xi Jinping summarized the valuable experience of the previous four decades, putting forward the view that “we must keep improving and developing the socialist system with Chinese characteristics, continuously giving play to and strengthening the advantages of our country’s system.” The inspiration to be had from the practice of reform and opening-up, he stated, lies in the fact that the nature of the system is related to the fundamental, comprehensive, continuous and long-lasting development of the cause of the CPC and of China. Grasping the key to improving and developing the socialist system with Chinese characteristics requires that on the issue of the economic system,

... we must unwaveringly consolidate and develop the public sector of the economy, unwaveringly encourage, support and guide the development of the non-public sector of the economy, give full play to the decisive role of the market in allocating resources, enable



the government to better play its role, and stimulate the vitality of all kinds of market entities. (Institute of Party History and Literature of the CPC Central Committee 2019, 733)

This statement is a continuation of Xi Jinping's explanation of the theory of the socialist market economy since the 18th National Congress of the CPC. It represents a deepening of the theoretical significance of the political economy of socialism with Chinese characteristics, and is an indication of the foresight present in the new summary made by the fourth plenary session of the 19th CPC Central Committee on the fundamental socialist economic system.

## Notes

1. See <http://chuxin.people.cn/n1/2019/1106/c428144-31439727.html>.
2. See [http://www.moj.gov.cn/news/content/2020-08/15/xxxt\\_3254246.html](http://www.moj.gov.cn/news/content/2020-08/15/xxxt_3254246.html).

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